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Arms and Hostages: Dealings That Went Sour

Saudi, Canadians Said to Have Been Financiers; U.S. Halted Shipment When Captives Not Freed

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A clearer and more detailed outline of the secret dealings between the United States and Iran involving the selling of U.S. arms and the freeing of American hostages held in Lebanon emerged this week from congressional investigations and closed-door hearings, according to sources familiar with these inquiries on Capitol Hill.

The dealings between the United States and Iran from August 1985 until this October became contentious during this year, and on one occasion the United States held back an arms shipment because an expected release of hostages did not occur, informed sources said yesterday.

By October, the sources said, the clandestine operation was going sour: private financiers who had supported the deals were threatening to go public with complaints that they were not being paid; elements in Iran hostile to the dealings also threatened to publicize them, and did so in leaflets distributed in Tehran; and Defense Secretary Caspar W. Weinberger, who initially opposed the arms shipments but then reluctantly went along with them, again began to express doubts about the wisdom of continuing.

This new account begins with Saudi billionaire Adnan Khashoggi, who was more deeply involved in the arms deals than previously realized, the sources said.

In August 1985, Khashoggi advanced \$1 million to help finance the first shipment of Israeli arms to Iran "to get the deal going," he said in an interview with ABC that was broadcast last night. The funds went to Iranian arms dealer Manucher Ghorbanifar, who was acting for the Iranian regime of Ayatollah Ruhollah Khomeini, Khashoggi said.

Khashoggi said he put up \$4 million for a second shipment, which was made Sept. 14, 1985. That same day, the Rev. Benjamin Weir, one of five American hostages then being held in Lebanon by the pro-Iranian Islamic Jihad, was released.

The United States, however, had been led to believe by Israeli intermediaries handling the deal that it would produce the release of at least two and perhaps all five hostages.

Khashoggi also financed an arms delivery in November 1985, sources said, but no hostages were released because the material—spare parts for Hawk anti-aircraft missiles—was considered obsolete by the Iranians.

That mishap led to renewed debate in the White House National Security Council on the merits of continuing the shipments, sources said. Despite the objections of Weinberger and Secretary of State George P. Shultz, President Reagan decided in January to proceed with the deliveries on a new basis.

Under the new plan, the weapons would be taken out of U.S. stockpiles and transshipped through Israel to Iran. Khashoggi continued to play banker, reimbursing the United States for its weapons and then collecting from the Iranians. This method guaranteed that the United States would not lose money; but, because there was room for a large markup in the price of the weapons, Khashoggi could offer other private investors the prospect of a big profit if they joined his secret venture, the sources said.

The initial shipment of TOW anti-tank missiles last February was designed to reaffirm U.S. interest in continuing the secret dealings with Iran, the sources said.

Then, in late May, Reagan's former national security adviser, Robert C. McFarlane, Lt. Col. Oliver L. North of the National Security Council staff and others flew to Tehran with a shipment of U.S. arms—new Hawk missile parts to replace the ones the Iranians had rejected the previous November.

The stature of the McFarlane delegation was meant to demonstrate that the United States was serious in seeking to improve its relations with Iran; in conjunction with the McFarlane mission, the Iranians were expected to respond

by using their influence to gain the release of all the remaining hostages in Lebanon, McFarlane has said. Once that happened, the United States was to send another arms shipment, the sources said.

But the hostages were not released, and when McFarlane met with Iranian officials, he was faced with demands for more arms deliveries, congressional sources have said.

When the promised second May shipment was held up after McFarlane's trip, the Iranians held back money owed for the previous arms delivery, the sources said. That left Khashoggi and other private financiers he had drawn into the deal waiting uncomfortably for their money, the sources added.

In ways still unexplained, U.S.-Iranian negotiations picked up again in July. The White House demanded release of another hostage before it would consider resuming arms shipments, the sources said. On July 26, the Rev. Lawrence M. Jenco was released.

At this stage, the sources said, the Iranians paid for the May shipment, and Khashoggi, according to one source, brought in Canadian investors to put up the money for an August consignment that the White House expected would lead to the release of additional hostages. When none was freed after that shipment was made, the White House again had second thoughts and refused to send more arms until the Iranians guaranteed that doing so would win release of all remaining hostages, the sources said.

The Iranians responded by holding up full payment for the August shipment, leaving Khashoggi and the Canadians holding the bag.

Iran's failure to pay fully for that shipment led to an October telephone call from Roy L. Furmark, a Khashoggi associate and New York businessman, to William J. Casey, director of the Central Intelligence Agency. In the mid-1970s, Casey, then a lawyer in private practice, represented Furmark in a legal matter.

Furmark, who testified for three hours yesterday before the Senate Select Committee on Intelligence, said he called on Khashoggi's behalf, according to sources familiar with his testimony. He said he cautioned Casey that the Canadian investors were getting restless because of the Iranians' failure to pay in full for the August shipment, and were threatening legal action against Khashoggi that would make the secret arms deals public, according to the sources.

Casey invited Furmark to Washington the next day for a full briefing. Furmark told Casey that he had learned from Ghorbanifar, the Iranian arms merchant who was still acting as a middleman in the deals, that some of the money expected by the backers of the arms shipments may have been diverted to Central America. Casey testified to a House panel Wednesday that this was the first inkling he had that profits from the arms sales might have been diverted to rebels fighting the Nicaraguan government, according to congressional sources.

Casey testified that he cautioned North and Vice Adm. John M. Poin-dexter, then Reagan's national security adviser, that the program was in jeopardy, and said that they asked him to try to assuage the moneymen while they made one last effort to get all the hostages out. A final arms shipment was made in late October; on Nov. 2 one hostage, David Jacobsen, was released. (Since September, three other Americans have been kidnapped in Beirut, but they are not believed to be held by the Islamic Jihad.)

The United States was paid for the October shipment, the sources said, but the financiers who put up the money have yet to receive any payment from Iran, the sources added.

Casey appeared yesterday for three hours before the House Permanent Select Committee on Intelligence.

In last night's ABC interview, Khashoggi and Ghorbanifar made their first extensive public remarks on the complex arms puzzle.

Although the two men left unclear how much they believed Reagan knew about the arms transactions, Khashoggi said he believed the president had given advance approval for the first shipment in August 1985.

He said money for the weapons was deposited in a Swiss bank account in the name of "Lake Resources," but said he did not know where it went after that. In his congressional testimony this week, CIA Director Casey identified Lake Resources as one of the firms involved in the complicated transactions.

Ghorbanifar said that North and retired Air Force major general Richard V. Secord, who is under investigation for his role in the Iran-contra affair, controlled the Lake Resources account. "We think it was controlled by North [because] he is the coordinator," said Khashoggi.

Ghorbanifar said in the interview, which was broadcast as a "20/20" segment last night, that the Americans put a price tag of \$30 million to \$35 million on the weapons. He said that North, who has been described by Attorney General Edwin Meese III as having "precise knowledge" of the Iran fund diversion, seemed to be acting largely on his own in the matter.

Ghorbanifar said he thought the amount paid to the Americans was for the cost of the weapons and transportation. He said he was surprised to learn from news reports that the actual cost to the Americans was \$12 million.

Asked what he thinks should happen now, he responded, "We think they will refund."

Ghorbanifar said that the Iranian government had yet to reimburse Khashoggi \$10 million.

Although Meese disclosed last month that money from the Iran arms sales had been diverted to aid the Nicaraguan rebels, congressional investigators have apparently failed to find such a trail of money.

"So far, we have no evidence that the contras ever received any money," said Sen. William S. Cohen (R-Maine), a member of the Senate intelligence committee. "There are three possibilities: one, that the money was never received by the contras; two, that they did get it [even though] they say they didn't; and three, that they received some sort of in-kind assistance We just don't know yet where the money went."

Cohen raised the possibility that some of the money might have been skimmed by middlemen.

In his ABC interview, Khashoggi claimed that he had made no profit from the arms sales.

Another witness before the Senate panel yesterday was Richard L. Armitage, assistant secretary of defense for international security affairs, who supervised the transfer this year of U.S. arms from Pentagon stockpiles to the CIA for transshipment through Israel to Iran.

Cohen said Armitage was questioned during his two-hour appearance about "the entire logistical arrangement."

Meanwhile, a Pentagon source said yesterday that Secretary Weinberger, who originally opposed the arms shipments, supervised them once Reagan ordered them.

The source also said that normal procedures for transfers to the CIA for covert operations were followed, although normal reporting of the actions to Congress was not undertaken because the president had barred it in this case.

In another development, officials at Kelly Air Force Base in Texas have been ordered to identify and hold documents covering four shipments to Israel last February and May, according to the San Antonio Light. Southern Air Transport Co., a former CIA-owned charter air service, carried 90 tons of equipment from Kelly to Tel Aviv in each of those months, according to company documents.

Staff writers Helen Dewar, James R. Dickenson, Tom Kenworthy and David S. Broder contributed to this report.